

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 9339]
[August 6, 1982]

PROPOSED IMPROVEMENTS IN CHECK COLLECTION SERVICES

To All Depository Institutions, and Others Concerned,
in the Second Federal Reserve District:

The following statement has been issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has requested comment on a proposal by the Federal Reserve Banks to improve the speed and efficiency of the nation's payments mechanism by modifying the System's check processing and collection procedures.

The Board asked for comment on the proposal by September 20, 1982. In doing so, the Board said it would consider the matter promptly after the end of the comment period and requested, consequently, that comment be made as early as practicable.

The proposal was made in view of the objectives of the Monetary Control Act of 1980. In announcing the proposal the Board said:

The Monetary Control Act requires that the Federal Reserve establish a structure of fees for Reserve Bank services in accordance with pricing principles adopted by the Board. As indicated in the Act and its legislative history, promoting competition between Reserve Banks and other providers of payments mechanism services will improve the efficiency of the nation's payments system and lead to a more efficient allocation of society's resources. These objectives can be accomplished through collecting checks more rapidly and through more efficient utilization of Federal Reserve resources.

The Board noted that in accordance with the Act it adopted a set of principles for pricing its services in December 1980 and that since then the System has put in place fee schedules for virtually all Reserve Bank services.

The proposed modification of the check collection system would allow banks, savings and loan associations, credit unions and other depository institutions that send checks to the Federal Reserve for collection to obtain faster payment for many of the checks, and reduce the amount of float in the check collection system. The proposal would also make it possible for depository institutions to give individuals and businesses quicker use of funds represented by checks they deposit.

To these ends, the Reserve Banks propose:

1. To allow institutions to deposit their checks at Federal Reserve offices later in the day than at present.
 - This would permit more checks to be collected within 24 hours.
2. Complementing this change, to establish 12 noon as the earliest *final* time at which Federal Reserve offices will present for payment to depository institutions checks deposited with the Federal Reserve for collection.
 - There is no change intended in the present practice at Federal Reserve offices to make processed checks available to paying banks throughout the processing schedule, so that the number of checks to be presented at the later presentation time can be minimized. It is anticipated that a significant proportion of checks will continue to be made available through current arrangements.

The Board estimated that these proposed revisions taken in conjunction with reconfiguration of the Federal Reserve's transportation system, would accelerate by 24 hours collection of 50 percent or more of certain checks cleared between Federal Reserve offices.

The Federal Reserve Banks will in the near future make public the fee schedules for check services that would apply if their proposal is adopted.

The Federal Reserve expects to announce in the next several months details of its program to reduce float.

In our Circular No. 9300, dated May 25, 1982, this Bank announced that effective August 2, 1982, checks would be presented to city banks up to 12 noon for same-day settlement. However, in response to requests by banks, noon presentment has been deferred pending receipt of comments and action on the proposal referred to in the Board's statement. As a result, presentment of items by this Bank will continue to be made at the times in effect prior to August 2.

Printed on the following pages is the text of the Board's request for comment. Comments thereon should be submitted by September 20, 1982, and may be sent to James O. Aston, Vice President, Check Processing Function. Any questions regarding this matter may be directed to either Mr. Aston (Tel. No. 212-791-6334) or John F. Sobala, Assistant Vice President, Check Processing Function (Tel. No. 212-791-5997).

ANTHONY M. SOLOMON,
President.

tion of checks, which will allow depository institutions to obtain faster payment for many checks deposited with the Federal Reserve. The proposal should reduce the delay in the collection process that now exists and, as a result, depository institutions should be able to provide funds to their depositors more rapidly. In addition, increasing the speed with which checks are collected will reduce the amount of float that currently exists nationwide.^{2/}

In order to accomplish these results, the Reserve Banks are revising their check transportation system and are proposing an integrated plan to extend the times during which checks may be deposited at Federal Reserve offices for collection and to implement a system-wide program to extend the time in which checks are presented to paying banks. Public comment is requested in order to assist the Board of Governors in evaluating this proposal.

Change in Deposit Times

The Reserve Banks have begun implementing their improved Interdistrict Transportation System ("ITS"). This reconfigured system is designed to change the method by which checks are transported among Federal Reserve offices and reduce the time necessary to collect checks through the Federal Reserve. When fully implemented the revised ITS will enable Reserve Banks to accept certain categories of checks deposited by depository institutions at a later hour than is the case at present. Specifically, a Reserve Bank would permit a depository institution that uses its local Federal Reserve office to process or ship checks to be collected through other Federal Reserve offices to deposit such checks substantially later than at present (up to 2 to 5 hours later). As a result, depository institutions will have a longer time to process checks and receive improved availability of funds for such checks.

Currently, Federal Reserve Banks grant depository institutions the privilege of by-passing the local Federal Reserve office by shipping checks directly to other Federal Reserve offices for collection. Under the proposal, depository institutions will continue to be permitted to send checks directly to other Federal Reserve offices. Initially, because of operational adjustments necessitated by shifts in workload deposit deadlines now in effect for such arrangements will not change. However, as experience is gained with the modified procedures, Reserve Banks will consider adopting later deposit deadlines for direct sending depository institutions.

The Board believes that changing deposit deadlines will substantially enhance the check collection process and improve the efficiency of the nation's payments mechanism. Under the proposed deposit deadlines, the

Board expects that 50 to 70 percent of inter-territory RCPC items^{3/} will be collected and credited within one day--thereby accelerating by 24 hours the collection of many of these checks. (It is estimated that the value of these checks is between \$1.6 and \$2.6 billion per day.) Public comment is requested

^{2/} Float begins as soon as a transaction occurs in which a person receives a check and continues until the check is finally paid and the recipient is permitted to use the funds represented by the check.

^{3/} Inter-territory RCPC items are checks deposited in one Federal Reserve office territory that are drawn on a depository institution located in another Federal Reserve office territory in an area designated by that Federal Reserve office as a Regional Check Processing Center.

regarding the possible effects these proposed changes to deposit deadlines at collecting Federal Reserve offices may have upon depository institutions and their customers.

Changes of Presentment Time

Under the Federal Reserve's current procedures, Reserve Banks present checks for payment that day to depository institutions within each Federal Reserve territory at times dependent upon distance or agreements. Typically, checks presented to institutions outside Federal Reserve office cities may be delivered up to 2:00 p.m., while checks presented to institutions through a city clearinghouse are presented in accordance with a prearranged time schedule. Presentment times now range from approximately 7:00 a.m. to 2:00 p.m. The Reserve Banks propose to establish 12:00 noon as the uniform earliest final presentment time for checks they collect drawn on institutions designated as city institutions. No change in presentment times is planned for those presentments that now occur after 12:00 noon. As a result of later presentment times, Federal Reserve offices will be able to clear checks for depository institutions that now require an additional day for clearing. In addition, some Federal Reserve float will be eliminated with later presentment, which is consistent with System efforts to decrease and ultimately eliminate float. There is no change intended in the present practice at Federal Reserve offices to make processed checks available to paying banks throughout the processing schedule, so that the number of checks to be presented at the later presentment time can be minimized. It is anticipated that a significant proportion of checks will continue to be made available through current arrangements.

Certain depository institutions located in RCPC or country areas may also receive checks later than under current arrangements. Generally, later presentment times will affect only those depository institutions that receive a substantial dollar value of checks each day and where special transportation arrangements are warranted. The proposal, therefore, would treat such institutions in the same manner as those located in Federal Reserve cities.

This proposed change does not constitute an amendment to existing Federal Reserve regulations and is taken under the rights conferred on presenting institutions under the Uniform Commercial Code.

Later presentment will assure that checks received by Reserve Banks earlier that day are collected the same day, thus speeding up the collection of checks to the benefit of depositing institutions and their customers. This proposal, which consists of later deposit hours and later presentment hours, together with the reconfigured and more efficient ITS, also assures that Federal Reserve float will not increase.

The Federal Reserve believes that the proposal, if adopted, will not result in any abrupt changes to the operations of depository institutions in the near term since adequate time will be provided to adjust to the proposed change. Reserve Banks will continue to participate in check clearings in cities in which they are located, but in addition, if the clearing hour is prior to noon, will present checks outside of the clearing until 12:00 noon. To assist paying institutions that will receive checks later than at present, Reserve Banks are considering development of special services such as providing the MICR line data from checks on computer tape and providing account information and dollar totals to payors by telephone in advance of the presentment of the checks where requested by the paying bank.

The Board has considered the impact of the proposal on smaller depository institutions.^{4/} Since smaller depository institutions generally are located outside of the Federal Reserve cities, they typically would not be affected by the later presentment proposal. Smaller institutions, however, should benefit from the proposed later deposit deadlines since checks they deposit for collection will be collected faster than at present. The proposal will not impose any additional reporting, recordkeeping, or other compliance requirements on smaller institutions, and will not duplicate, overlap or conflict with any federal rule or regulation.

Comment is requested on this proposal by September 20, 1982. In particular, comments are requested on the effects the proposal may have upon depositing and paying institutions. In view of the importance of the proposals to improving the efficiency of the nation's payments mechanism, the Federal Reserve intends to consider this matter promptly after the close of the comment period on September 20, 1982. Accordingly, interested parties are urged to submit their comments on these proposals promptly. Public comment is being requested on this proposal because of the interest expressed in recent weeks by depository institutions concerning the proposed changes.

The Federal Reserve Banks will, in the near future, make available the fee schedules for check services that would be in effect if these proposals are adopted. Further, the Federal Reserve expects to announce the details of the elements of its float reduction plan in the next several months. A discussion of the float reduction plan was recently issued by the Chairman of the System's Pricing Policy Committee. Additional details, such as specific proposed deposit deadlines and presentment times, may be obtained from local Federal Reserve offices.

By order of the Board of Governors of the Federal Reserve System,
August 4, 1982.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]

^{4/} Of the approximately 22,000 institutions served by the Federal Reserve, approximately 50 percent have deposits of less than \$25 million.

FEDERAL RESERVE SYSTEM

[Docket No. R-0414]

Modifications to Federal Reserve Bank Check Collection Services

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Request for comments.

SUMMARY: The Board of Governors is requesting public comment on a proposal to improve the speed and efficiency of the nation's payments mechanism by modifying certain aspects of the Reserve Banks' check collection services. Public comment is requested on a proposal to extend the times during which checks may be deposited at Federal Reserve offices for collection and to implement a system-wide program to extend the time in which checks are presented to certain paying banks.

DATE: Comments must be received by September 20, 1982.

ADDRESS: Comments, which should refer to Docket No. R-0414, may be mailed to Mr. William W. Wiles, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, or delivered to Room B-2223 between 8:45 a.m. and 5:15 p.m. Comments received may be inspected at Room B-1122 between 8:45 a.m. and 5:15 p.m., except as provided in § 261.6(a) of the Board's Rules Regarding the Availability of Information, 12 C.F.R. § 261.6(a).

FOR FURTHER INFORMATION, CONTACT: Gilbert T. Schwartz, Associate General Counsel (202/452-3625), Daniel L. Rhoads, Attorney (202/452-3711), or Joseph R. Alexander, Attorney (202/452-2489), Legal Division; or Elliott C. McEntee, Assistant Director (202/452-2231), Division of Federal Reserve Bank Operations, Board of Governors of the Federal Reserve System, Washington, D.C.

SUPPLEMENTARY INFORMATION: The Monetary Control Act of 1980 (P.L. 96-221) ("Act") was enacted by Congress to facilitate the development of a more efficient payments mechanism.^{1/} Section 107 of the Act (12 U.S.C. § 248a) requires that the Federal Reserve establish a structure of fees for Reserve Bank services in accordance with pricing principles adopted by the Board. As indicated in the Act and its legislative history, promoting competition between Reserve Banks and other providers of payments mechanism services will improve the efficiency of the nation's payments mechanism and lead to a more efficient allocation of society's resources. These objectives can be accomplished through collecting checks more rapidly and through more efficient utilization of Federal Reserve resources. On December 31, 1980, the Board adopted a set of pricing principles and fee schedules for certain Federal Reserve services. Subsequently, the Board adopted fee schedules for virtually all Reserve Bank services in accordance with the Act.

In order to improve the efficiency of the payments mechanism, the Reserve Banks are proposing modifications designed to speed up their collec-

^{1/} See remarks of Senator Proxmire, 126 Cong. Rec. S 3167 (daily ed. March 27, 1980).